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DHS/ICE FOR A/S JULIE MEYERS
DHS FOR A/S INTL AFFAIRS MARISA LINO
DHS FOR CHIEF OF STAFF CHAD SWEET
DHS/ICE FOR CARLOS MAZA AND GLORIA FICHOU
EB/IFD/OIA FOR WSCHOLZ
E FOR THOMAS PIERCE
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
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USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
US SOUTHCOM FOR POLAD

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SUBJECT: ARGENTINE TAX AUTHORITY'S ABAD ON CRISTINA GOVERNMENT, TAX INFORMATION EXCHANGE, CSI, AND 9/11 ACT

Ref: (A) Buenos Aires 1800
(B) Buenos Aires 1795

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Summary

¶1. (SBU) Alberto Abad, head of Argentina's customs and revenue authority, AFIP, sees key economic challenges facing the incoming Cristina Fernandez de Kirchner (CFK) administration as re-inserting Argentina into global capital markets, dealing with inflation, reducing the heavy burden of state subsidies on the budget, and attracting needed foreign direct investment. Abad, himself mooted as a leading CFK Economy Minister candidate, told the Ambassador November 14 that he knows and respects incoming Economy Minister Lousteau but is uncertain how much room to maneuver Lousteau will be given in the new government by "de facto Economy Minister" Nestor Kirchner. Abad expressed hope that CFK's more open international engagement style could lead to resolution of the longstanding Paris Club impasse.

¶2. (SBU) Abad expressed appreciation for the agreement by the Embassy's Immigration and Customs Enforcement (ICE) unit to include AFIP tax investigators alongside their customs colleagues in the joint U.S./GoA Trade Transparency Unit. He sees this as a first step on the path to establishing broader tax information exchange

cooperation. Noting the U.S. Treasury Department has conditioned discussions of a formal U.S./GoA Tax Information Exchange Agreement discussions on a commitment to negotiate a broader Bilateral Income Tax Treaty, Abad argued that exchanging Argentine and U.S. tax data now would further our joint priorities in combating money laundering and terrorist finance. On the U.S. 9/11 Act, Abad had earlier proposed creating a database of legitimate/trustworthy Argentine exporters and sharing this information with DHS Customs and Border Patrol to expedite entry of goods into the U.S. from Argentine businesses. Ambassador outlined the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) which has established similar programs with Australia and New Zealand. ICE subsequently arranged a briefing by visiting C-TPAT officials for Argentine Customs authorities. Abad sees the U.S. IRS as a model to be emulated and seeks a closer working relationship. Post recommends a Treasury/IRS invitation for Abad to visit Washington as a deliverable for the December 10 CFK inauguration.

End Summary.

Abad on CFK Economy Minister Cabinet Pick

¶ 13. (SBU) Before Cabinet Chief Fernandez's November 14 announcement of CFK cabinet appointments, local media was calling AFIP's Alberto Abad one of the top candidates to replace Miguel Peirano as Economy Minister. In a November 15 meeting with Ambassador, he joked that the "Peter Principle" (rising in a bureaucracy to one's level of incompetence) applied in his case, and that after six years improving the AFIP organization and building a culture of taxpayer compliance for the first time in Argentina's history, he would be more than content to move on when his term expires in December

¶ 2008.

¶ 14. (SBU) Abad praised the choice of Banco Provincia de Buenos Aires President Martin Lousteau as Economy Minister, noting that. As an ex-director of BAPRO (the Banco Provincia holding company), Abad said he was familiar with Lousteau's work. It remains to be seen, Abad said, just how much room to maneuver Lousteau will be given in the new government. He repeated the conventional wisdom that, whoever sits in the Ministry, Nestor Kirchner will remain the "de facto Economy Minister." Abad expressed hope that CFK's more open international engagement style could lead to resolution of the longstanding Paris Club impasse. Key economic challenges facing the incoming CFK administration, Abad concluded, are re-inserting Argentina into global capital markets, dealing with inflation, reducing the heavy burden of state subsidies on the budget, and attracting needed foreign direct investment.

Growing Tax Collections

¶ 15. (SBU) Ambassador praised AFIP's strong track record in boosting government revenue collection, noting a 30% increase in VAT collections alone in the first half of 2007. Abad noted that revenues should increase from a projected Pesos 200 billion in 2007 to the Pesos 230 billion (approx US\$ 73 billion) level in 2008. He called the bulk of GoA revenue growth due to economic expansion (including dramatically increased employment), the capture of a larger share of the inflation-boosted income in income taxes, and the imposition of new taxes (including export taxes and a financial transactions tax). He also attributed increased revenues to a greater number of taxpayers filing their required returns and to AFIP's enhanced collection efforts.

¶ 16. (SBU) Abad highlighted that recent increases in export tariffs on soy, wheat and corn are expected to bring in an additional \$1-plus billion a year towards CFK's stated goal of achieving a 4% primary fiscal surplus. Export tariffs offer the GoA three key benefits, Abad said: they are a growing source of revenue (so long as international commodity prices remain high); they help lower and control politically sensitive domestic food prices; and they are not shared by the federal government with the provinces. (Export tariffs were not contemplated under the GoA's dated co-participation law that sets federal/principal revenue sharing formulas.) Ambassador noted the November 13 announcement of significantly

expanded export tariffs on both crude and refined hydrocarbons. (The latter are not expected to raise significant additional GoA revenue, but rather ensure that the bulk of domestic hydrocarbon production is consumed locally at prices substantially below world market levels.) How increased revenues will be used by the GoA is out of AFIP's hands but the quality of GoA spending is a matter of concern for all Argentines, Abad said. Transportation and energy subsidies may have had some short term logic/utility, but they are creating substantial medium term disequilibria. Increases in public utility tariffs expected early in the CFK administration will be "complicated," he concluded.

TTU, Request to Expand Tax Information Exchange

¶17. (SBU) Ambassador noted that, at their last meeting in September (Reftels) he and Abad had discussed the idea of expanded investigative cooperation with the joint U.S./GoA Tax Transparency Unit (TTU). Given AFIP's strength in the area of monetary instrument reporting, Ambassador said, the Department of Homeland Security's Immigration and Customs Enforcement (ICE) unit welcomes AFIP's proposal to include its tax investigators within the Buenos Aires TTU operation. An AFIP investigative presence would enhance the ability of U.S./Argentine investigators to monitor potential illegal financial movements.

¶18. (SBU) Abad welcomed ICE's flexibility and saw this as a first small step on the path to establishing broader tax information exchange cooperation. Abad recalled that the U.S. Treasury Department continues to condition a formal US/GoA Tax Information Exchange Agreement (TIEA) on negotiation of a broader Bilateral Income Tax Treaty, notwithstanding the fact that the U.S. in 2007 signed a TIEA with Argentina's Mercosur partner Brazil based only on the promise of future tax treaty negotiations. Abad and his Chief of Staff Ernesto Donato argued that the exchange of Argentine and U.S. tax data needs to be viewed from a more "modern" perspective: beyond serving the interests of both nations' tax authorities, the exchange would further our joint priorities in combating money laundering and terrorist finance. Argentina, they noted, is already building its anti-evasion and anti-money laundering capacity through the negotiation of cooperation and information exchange agreements with a number of other national tax authorities, including those of Brazil, China and Italy.

¶19. (SBU) Argentina also participates actively as an observer nation in the OECD's tax forum, and the head of AFIP's revenue service, Horacio Castagnola, will travel to South Africa in February to attend an OECD conference that will address the \$11+ billion of taxable revenues being held in global offshore tax havens. Argentina does have some limited contact with the U.S. IRS now though Argentina's membership in the Inter-American Center for Tax Administration (Centro Inter-Americano de Administracion Tributario) which includes Latin nations and Canada, Spain, Italy, France, Luxembourg South Africa and most recently India as members and observers. But AFIP sees the U.S. IRS as a model to be emulated and seeks a closer working relationship. The only solution to the globalization of tax evasion, money laundering and terror finance, Abad concluded, is increased exchange of information by tax and revenue authorities. "Give us a signal," he concluded. "We don't need to negotiate a big bilateral agreement, but we want to develop a new, closer relationship with you."

Container Security Initiative (CSI) Expansion

¶10. (SBU) Ambassador noted ICE's satisfaction with the success of the CSI program to date in Argentina and recalled Abad's request at their September meeting (Ref B) to expand the CSI's current operation in Buenos Aires to other ports in Argentina. While any future expansion of CSI operations worldwide requires legislative review by the U.S. Congress and no additional CSI staff are likely be assigned to Argentina in the coming year, Ambassador welcomed solutions offered by the GoA to increase the monitoring capabilities within the existing CSI operation, including the use of remote

scanning operations and/or training of Argentine staffed teams.

Abad noted that his Director of Customs, Ricardo Echegaray hopes to utilize remote cameras to expand CSI coverage beyond the Port of Buenos Aires' Exolgan Terminal to additional terminals there and to two maritime ports in the Province of Buenos Aires, Zarate and Campana.

GoA on "9/11" Maritime Cargo Scanning Law Compliance

¶11. (SBU) Ambassador recalled his September discussion with AFIP Echegaray (Ref B) on Congress' passage of the 9/11 Act that mandates all U.S.-bound shipping containers be scanned at foreign ports beginning July 2012. Abad had raised the idea creating a database of Argentine exporters determined to be legitimate and trustworthy ("operadores confiables") and sharing this information with the DHS Customs and Border Patrol officials to facilitate expeditious entry of goods into the U.S. from Argentine businesses. Ambassador outlined the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) which has established similar programs with Australia and New Zealand.

¶12. (SBU) Abad was familiar with C-TPAT and with recent U.S./European Union discussions along these lines. He looked forward to getting additional information from the U.S. Customs and Border patrol officials. (Note: A subsequent November 16 meeting was arranged with Echegaray by ICE with visiting C-TPAT officials to explain the C-TPAT program and explore the potential for a future partnership arrangement with Argentina.) Abad said that, while the GoA understands the motivation behind the 9/11 law and is developing plans to comply with its somewhat onerous provisions, others are not so supportive. He noted the comments of World Customs Organization (WCO) Secretary General Michel Danet who, during a WCO piracy and trademark fraud conference in Buenos Aires in early November, said that this law is "crazy" and "useless." (Danet was quoted in local media as saying "The law is crazy and useless. It is a unilateral (U.S.) decision which imposes additional costs on the rest of the nations and is a step backwards because it is 100% about control and does not consider risk analysis.")

Comment

¶13. (SBU) With a background in accounting (Price Waterhouse), Abad was appointed to head AFIP by interim President Duhalde in January 2002. He was retained in his position by President Kirchner with good reason: Abad is considered one of the most capable and competent technocrats in Argentine government today, and his record in enhancing AFIP's professionalism and in expanding customs and tax collection is widely recognized. Post supports Abad's desire to establish a closer working relationship with the IRS and concurs with his assessment that a broader exchange of tax information would further our joint priorities in combating money laundering and terrorist finance. Treasury may wish to consider an invitation for Abad to visit his IRS counterparts in Washington. This could be presented as a deliverable by a senior U.S. government official at the upcoming December 10 CFK inauguration in Buenos Aires.

WAYNE